



DEPARTMENT OF THE AIR FORCE
WASHINGTON DC 20330-1120

OFFICE OF THE SECRETARY

DEC 02 2019

MEMORANDUM FOR THE ACTING AUDITOR GENERAL OF THE NAVY

FROM: SAF/AG

1120 Air Force Pentagon, Ste 4E204
Pentagon, Washington DC 20330

SUBJECT: System Review Report on the 2018 Off-Cycle External Quality Control Peer
Review of the Naval Audit Service

1. We reviewed the Naval Audit Service (NAVAUDSVC) quality control system for the audit function in effect for the year ended 31 December 2018. NAVAUDSVC is responsible for establishing and maintaining a quality control system to provide reasonable assurance that NAVAUDSVC personnel comply with professional standards and applicable legal and regulatory requirements in all material respects. Our responsibility was to express an opinion on quality control design and NAVAUDSVC personnel's compliance.
2. In response to NAVAUDSVC's memorandum, *Request For Off-Cycle Peer Review*, 29 March 2018, to the Department of Defense Office of the Inspector General (DODIG), we specifically reviewed corrective action taken by NAVAUDSVC in response to the opinion of "fail" due to lack of structural independence reported in the United States Army Audit Agency's *System Review Report on the External Peer Review of the Naval Audit Service (Project A-2018-ALC-0127.000)*, Report Number A-2018-0070-ALC, 12 July 2018.
3. We conducted our review in accordance with Government Auditing Standards, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) guidelines, and the Memorandum of Understanding between NAVAUDSVC and the Air Force Audit Agency, 16 November 2018. In performing our review, we interviewed NAVAUDSVC personnel and obtained a sufficient understanding of NAVAUDSVC's quality control system. In addition, we tested compliance with quality control policies and procedures to the extent we considered appropriate. Attachment 1 contains additional information on the scope and methodology for the peer review.
4. There are inherent limitations in the effectiveness of any quality control system and, therefore, noncompliance with the quality control system may occur and not be detected. If changes in conditions or compliance occur in future periods, the quality control system may be subject to risk and become inadequate.

5. In our opinion, the NAVAUDSVC:

a. Quality control system in effect for the year ended 31 December 2018 was suitably designed in accordance with Government Auditing Standards and CIGIE guidance. We found reasonable assurance that NAVAUDSVC personnel complied with the quality control system and conducted audits with generally accepted government auditing standards in all material respects. Accordingly, NAVAUDSVC has received an external peer review rating of "pass" for the year ended 31 December 2018.

b. Corrective actions sufficiently addressed the condition causing an opinion of "fail" due to lack of structural independence in United States Army Audit Agency's *System Review Report on the External Peer Review of the Naval Audit Service (Project A-2018-ALC-0127.000)*, Report Number A-2018-0070-ALC, 12 July 2018, resulting in this off-cycle peer review.

6. We issued a letter of comments to NAVAUDSVC officials on 2 December 2019. The letter of comments outlines findings not considered to be significant to the overall opinion expressed in this report.

7. We appreciate the courtesies and cooperation extended during the review. If you have any questions, please contact Ms. Isabel S. Neunsinger, Chief, Policy, Oversight, and Systems Division, at 240-612-5147 or by email at Isabel.S.Neunsinger.civ@mail.mil.



DOUGLAS M. BENNETT
Auditor General

Attachment
Peer Review Scope and Methodology

cc:
DoDIG (AIG/APO)
Acting Auditor General, NAVAUDSVC

Attachment 1

Peer Review Scope and Methodology

We conducted our review between 4 December 2018 and 26 September 2019 in accordance with Government Auditing Standards, CIGIE guidelines, and the Memorandum of Understanding between NAVAUDSVC and the Air Force Audit Agency, 16 November 2018. To obtain an understanding of the nature of the audit organization and quality control system, we reviewed NAVAUDSVC regulations and policies, evaluated administrative files, and interviewed NAVAUDSVC personnel. In addition, we visited the Headquarters NAVAUDSVC at Washington Navy Shipyard, DC and the field office at San Diego, CA.

Sample Projects. We judgmentally selected audits, an attestation engagement, a quality assurance review, a nonaudit service, and a terminated project to test for compliance with professional standards and NAVAUDSVC's quality control system. In accordance with CIGIE guidance, we selected by location from NAVAUDSVC's limited universe of projects started after 5 December 2017 and completed by 4 December 2018. We selected this time period because the NAVAUDSVC resolved their structural independence noncompliance on 5 December 2017. The DODIG approved our sample on 13 December 2018. Based on the Memorandum of Understanding and designated time period, we selected the following:

- **Audits:** We selected 3 of 6 performance audits.
- **Attestations:** We evaluated compliance for 1 of 1 attestation project.
- **Other:** We reviewed 1 of 2 nonaudit services and 1 of 1 quality control review (QCR). Further, we reviewed documentation for 1 of 1 terminated project to assess compliance with auditing standards.

See Table 1 for a listing of the DODIG approved sample projects.

Continuing Professional Education (CPE).

NAVAUDSVC's last 2-year CPE reporting cycle was Fiscal Year (FY) 2017 through 2018 (1 October 2016 - 30 September 2018), therefore our review corresponded with this cycle. We judgmentally selected 53 employees for CPE review because our fieldwork is a follow-up to the Army Audit Agency's external peer review Letter of Comments, 18 September 2018, that had a period of performance for CPE through FY 17. To review CPE, we selected all employees, who charged hours or provided support to the seven projects selected for this peer review.

In response to prior peer review recommendations, NAVAUDSVC conducted a QCR to verify that NAVAUDSVC auditors met GAGAS CPE requirements in the FY17 and FY18 reporting period. NAVAUDSVC conducted this review concurrent with our peer review fieldwork and issued their report on 4 April 2019 with CPE results similar to our review.

Attachment 1

Peer Review Scope and Methodology

We conducted procedures to verify compliance with Government Auditing Standards that states, auditors performing work under generally accepted government auditing standards (GAGAS) must maintain their professional competence through CPE hours. Specifically:

- Every 2 years, each auditor should complete at least 80 CPE hours that directly enhances the auditor's professional proficiency to perform audits or attestation engagements.
- At least 24 of these 80 hours should be in subjects directly related to Government auditing, the Government environment, or the specific or unique environment in which the audited entity operates.
- At least 20 hours should be completed in any 1 year of the 2-year period.

To conduct this review we relied upon the guidance applicable to the period FY17 and FY18 cycle, as provided in publication GAO-05-568G, *Government Auditing Standards, Guidance on GAGAS Requirements for Continuing Professional Education*, April 2005, that are currently incorporated in the updated July 2018 GAGAS version.

Previous Peer Reviews. We assessed management actions in response to previous peer reviews. Specifically, we reviewed support for actions taken in response to recommendations listed in the *System Review Report on the External Peer Review of the Naval Audit Service (Project A-2018-ALC-0127.000)*, Report A-2018-0070-ALC, 12 July 2018, and *Letter of Comments on the External Peer Review of the Naval Audit Service (Project A-2018-ALC-0127)*, Report A-2018-0087-ALC, 18 September 2018, issued by United States Army Audit Agency. In addition, we compared the results of our review to the Letter of Comments from the 2011 and 2014 external peer reviews.

Off-Cycle Peer Review Circumstances. On 29 March 2018, NAVAUDSVC requested an off-cycle peer review in response to the United States Army Audit Agency's *Notice of Concern: Naval Audit Service's Organizational Alignment and the Potential Impact on Its Audit Independence (Project A-2018-ZBZ-0119.000)*, 20 March 2018. The notice stated the organizational alignment of the Auditor General of the Navy and the NAVAUDSVC significantly impeded the audit organization's independence; therefore, the NAVAUDSVC would receive a "fail" rating in the upcoming external peer review report. The final external peer Report A-2018-0070-ALC, 12 July 2018 formally confirmed the "fail" due to lack of structural independence because the Auditor General of the Navy position effectively reported to the General Counsel alone rather than to the Secretary of the Navy or Under Secretary of the Navy and did not meet GAGAS 3.31 independence requirements. This situation resulted from a vacancy in the Under Secretary of Defense Navy position until 4 December 2017. Accordingly, our scope review was limited to projects started after 5 December 2017. Despite these circumstances, we believe the available documentation and peer review procedures performed provide a reasonable basis for our opinion.

Attachment 1

Peer Review Scope and Methodology

Report Number	Project Title	Type
N2018-0034	Budget Submitting Office 12 Major Headquarters Activities Reduction Plan Baseline	Audit
N2018-0038	Allocation of Depot Maintenance Workload Between Public and Private Sectors at Naval Supply Systems Command	Audit
N2018-0053	Allocation of Depot Maintenance Workload Between Public and Private Sectors at Space and Naval Warfare Systems Command	Audit
N2018-0051	Agreed-Upon Procedures Attestation Engagement of the Corrective Action Plan for the Improper Payments Program Material Weakness	Attestation-Agreed Upon Procedure
D2018-0001	Navy Exchange Service Command Audit Reports For Fiscal Years 2016 and 2017	Non Audit Service
Q2018-0001	Quality Control Review of Working Paper Required Information	Quality Assurance Review
N2018-0039	Enhanced Yard Management System	Audit (Terminated)

Table 1. Selected Projects

